RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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Apr. 4, 1990 **LETTER 1040**

Mar. 16 DJIA 2741.22; PTI 3281; A-D Ratio -9.45
Mar. 30 DJIA 2707.21; PTI 3269; A-D Ratio -9.9
Dow Yield: 3.60%; Dow P/E: 11.8; DowPow: 318
Dow Book Value: 1075; Dow 200-day MA: 2660
Percentage of Undervalued Blue-chips: 20%
PTI 89-day Moving Average: 3281

COMMENT: Robert Rhea, the great Dow Theorist of the 1930s, was one of history's great market analysts and traders. Bed-ridden, Rhea survived (all the while paying large doctor bills) on his trading ability.

On July 6, 1935, Rhea wrote, "Those who try to profit from the advance and decline of security prices are perplexed perhaps 90% of the time. And it seems that perplexity increases with experience. It has seemed to me that unvarying cocksureness on the part of traders or investment advisors is a badge of incompetence. There is, nevertheless, a time and place for certainty where the market is concerned, but such times and places are few and far between."

Wise and honest words, and words that I have found to be all too true. In view of Rhea's modesty, I have to laugh when I read some of the ads that grace the pages of *Barron's* and *Investor's Daily*. Have you noticed how many advisory ads boast that they are "The #1 Market Timer," their claim being based on Hulbert or some other grading outfit. And I ask myself, "How the devil can all these guys be numero uno?" It's sort of a joke, but one thing is certain -- modesty has gone out the window, and I'm afraid truthfulness has too.

THE PICTURE: This is a difficult, whip-sawing market. Many of the technical methods I follow have been giving alternate buy and sell signals, often within a few days of each other. Personally, I haven't (thank goodness) been trying to trade this market, but I know from conversations with friends who are trading that these have been very tough (I should say murderous) markets, from stocks to bonds, from gold to wheat.

What? Why? Here are my observations: (1) The markets are now global, and in a given situation we may find Saudi investors buying while US investors are selling, or British selling while Germans are buying. (2) There are a tremendous number of traders now trying to take money out of these markets, and I note more trading-oriented advertisements in the newspapers and magazines than ever before. (3) We have witnessed the rise of computerized instant trading methods with traders attempting to scalp profits out of stocks, commodities and bonds on an intra-day and even an intra-hour basis.

All of the above (i.e., the erratic trading) have helped to obscure the all-important direction of the great primary trend of the market. But in this business, you can't allow the trees to obscure the forest. So here goes:

(1) The Dow Theory gave a bear signal on January 25, 1990. The bear signal arrived amid a historic collapse in the D-J Transportation Average, plus a final plunge in the D-J Industrial Average. The Industrial Average during the January period lost 9.5% of its total value. The Transports fared a good deal worse, however. From their September '89 high to their January '90 low the Transports lost one-third of their total value.

(2) Since the January 30 low, the Averages (not the general market) have sustained a decent recovery. As this is written, the Dow is less than 100 points from its all-time high of 2810.15. The Transports are still far away from their own 1989 high of 1532.01.

(3) If, during the period ahead, the Dow does manage to better its all-time high of 2810.15, it will do so while leaving a slew of non-confirmations in its wake. In other words, a new solo-high by the Dow would (from a technical standpoint) be highly suspect.

(4) The breadth of the market on the rally has been remarkably poor with the advance-decline ratio on the NYSE gaining a measly 1.27 points since the February low (see page 2 chart). This sub-standard rally is reflected in the poor action of most of the mutual funds during the rally. The funds I watch gained approximately 3.5% on the entire January to March rise.

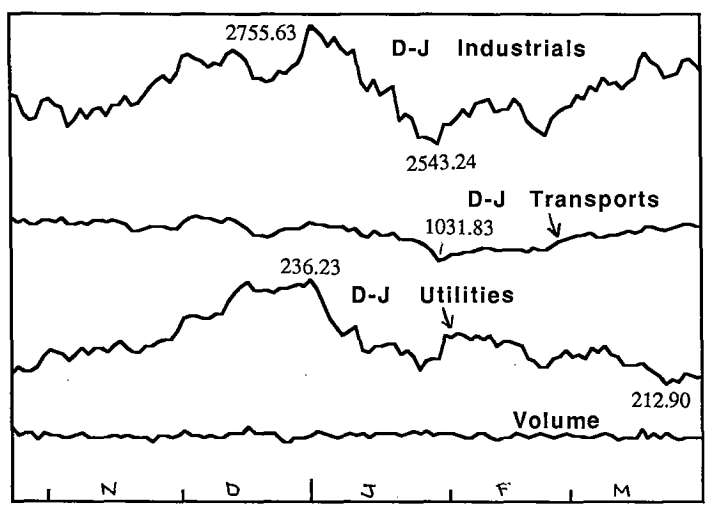
(5) As far as the action on the NASDAQ and the AMEX, the advance-decline lines in these two areas have been considerably weaker than that of the NYSE. In other words, what we've seen since late January has been a blue chip rally, notable for its lack of participation from the majority of stocks.

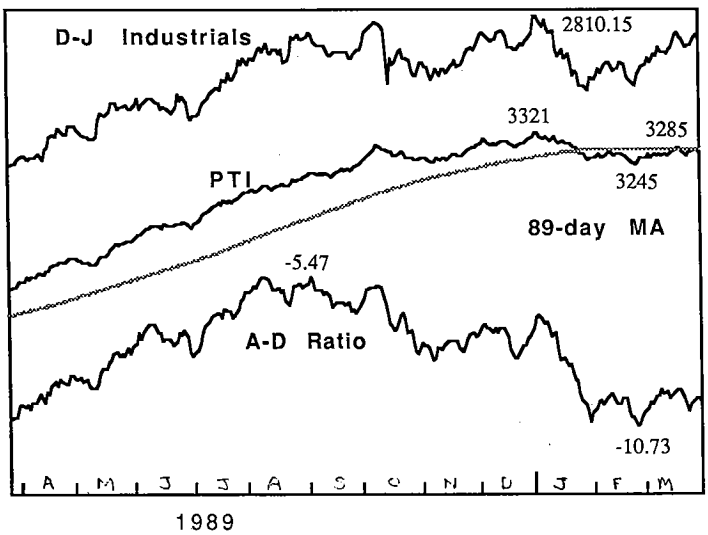
(6) I run a daily advance-decline line based on the combined breadth action of all three exchanges (NYSE, AMEX, OTC). Can you have a bull market with the MAJORITY of US issues trending down?

(7) By the same token, I calculate (weekly) the plurality of new highs and new lows on all three exchanges. Here again, week after week, more issues are hitting new lows than new highs. This is characteristic of the "resting period" in a bear market.

(8) With the Dow within shooting distance of its all-time high, there are (daily) on the NYSE more new lows than new highs. This is indicative of persistent internal weakness in the market.

(9) On March 19, my Primary Trend Index (PTI) pushed exactly one point above its 89-day moving average. That was hardly enough "juice" to indicate an upside reversal. Incredibly, the PTI sat on its moving average for a day -- then plunged on March 21 and 22.



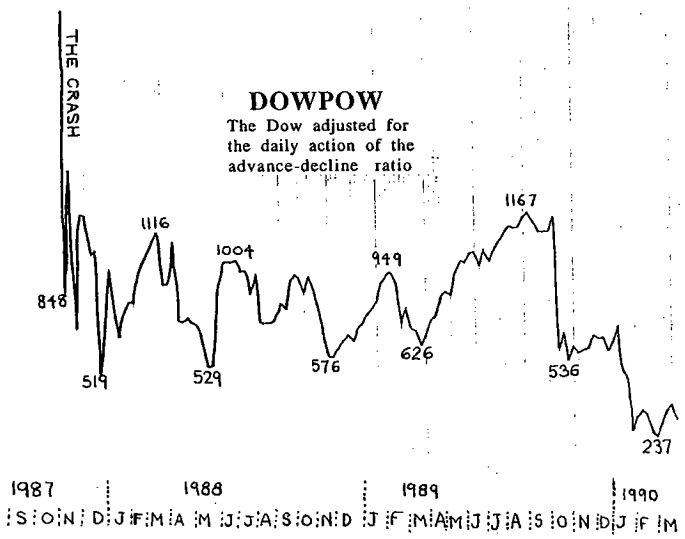


For a reversal, I require the PTI to move above (or below) its 89-day moving average with authority. That means that I require the PTI to break out above (or below) its 89-day MA with force, and I want the PTI to continue to move in the direction of the breakout. The March 19 rise, one point above the MA, obviously did not fill the bill.

For the benefit of new subscribers I should explain that the PTI is constructed so that it traces the underlying force of the market. Any persistent rise in the PTI will ultimately drag the market up with it. And any persistent decline in the PTI will ultimately take the market down with it. For the last month the PTI has been doing a balancing act, but it has remained below its moving average.

(10) On March 22, the NYSE Financial Index broke to its lowest level since March, 1989. The Financial Index is an important index. It includes ALL the financially-oriented stocks on the NYSE including banks, S&Ls, small loan companies, brokers, factors, etc. I feel that this lends a bearish background for this market.

(11) Last week the D-J Utility broke down. This is discussed in detail in a later section of this Letter.



(12) DowPow, my proprietary index of the Dow adjusted for the action of the advance-decline ratio, is shown in chart form on page 2. I feel that this chart, more than anything else, shows why the public has turned "stone-cold dead" on this market and why Wall Street is having such a horrendous time. For despite what the Dow has done, DowPow is in the cellar.

I have the record of DowPow going back to 1981, and it has NEVER acted this way before. I have always felt that DowPow pretty much reflects what's going on in the average investor's portfolio. If this is true you can see that the stock market has been a loser for the average investor ever since the 1987 crash.

At this point one might ask, "Can DowPow go up?" You bet it can. It exploded upwards from 1982 to 1984, and again from 1984 to 1987. As of March, however, DowPow was scraping the bottom. It's been an extraordinarily poor performance on the part of this Index.

(13) It has been said, "The margin account is a speculator's best friend." During a bull market, margin borrowing tends to rise as traders load up with stocks. During a bear market, margin debt tends to decline as the speculators are gradually knocked out of the market. Margin debt on the NYSE has now declined for four months in a row. That's typical of bear markets, not bull markets.

(14) I've said this ad nauseam (see "Strategies" in the last Letter), but if you're not buying values you should be safely compounding your money. To me that's the essence of safe, sane long-term investing. That's where I am. And that's where most of my subscribers should be.

(15) If you're a trader, you should keep the following in mind. The current tax system militates against you. If you trade and win, you pay taxes on your profits based on your regular tax rate. But if you trade and lose, the IRS allows you to write off only $3,000 a year against your losses. That means that mathematically, the system is stacked against you. Very few traders seem to realize this.

(16) Here's another concept that you should keep firmly in mind. There's a big difference between missing a potential profit and taking a loss. That's a difference that most amateur investors never seem to comprehend. Passing up a potential profit may be ultimately frustrating, but in this business you'd better learn to live with frustration. But passing up a potential profit is NOT a pocketbook-breaker. Taking a loss is another matter. Sustaining a loss means thinning your wallet -- losing assets. And loss of capital goes against "Russell's First Investment Rule", the rule which states, "Above all, don't lose money."

(17) This is a bear market, and the bear is a marvelous character actor. His act is this -- he wants to look like a bull. So he stages exciting rallies or persistent rallies or he holds above critical levels for weeks or even months at a time (thereby raising the hopes of the bulls). I've said this over and over, but I want to repeat it. The bear is also a lonely animal. He doesn't want to climb off the mountain alone. He wants company -- all the company he can gather.

So remember all this when you're tempted to jump in and "beat the market." Mind you, I don't say it can't be done. But the US tax system is against you. And the bear wants company.

INVESTMENT POSITION:

Peter Lynch, master stock picker and the genius behind the $13 billion Magellan Fund, has retired at the age of 46. Lynch's father died at the age of 46, and I know that this had to worry him (Lynch is a work-a-holic). But I'm also guessing that the bear market was a factor. I think Lynch wanted to leave a hero, and he sensed that this was the time to bid adieu to Magellan. Personally, I don't blame him.

Part of being an intelligent investor is knowing when to leave the party, and when the bear takes over, seasoned investors know that it's sideline time. The bear is in the box, and Richard Russell is about 95% in T-bills, and the rest in gold bullion coins.

As I mentioned in the first section, the majority of US stocks are now declining. More stocks are now hitting new lows than new highs. Even though the Dow has been performing well, the internal

action of this market has been poor. The bear is stirring; he's not out in the open yet, but if you look carefully you can see his signs.

THE UTILITY AVERAGE: The Utility Average was first introduced to the public by the *Wall Street Journal* in January 1929. Since neither Dow nor Hamilton had ever seen a Utility Average and since Rhea had little experience with that Average, the Utilities were never incorporated into classic Dow Theory.

However, George Schaefer (the great Dow Theorist of the 1949-74 era) took careful note of the Utility action. I too have followed the Utilities with keen interest. Although it is not always the case, the Utilities have on many occasions acted as market bellwethers. Over the years, the Utilities have had a tendency to top out before the rest of the market and to bottom out before the bulk of the market.

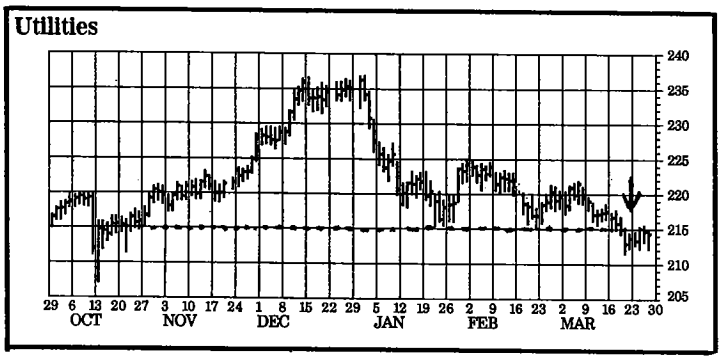
There are many misconceptions about Utilities, the most common being that the utility stocks are somehow resistant or immune to bear market action. In fact, many advisors who are openly bearish will not hesitate to advise their clients to move to "the safety of the utility stocks".

History does not agree. For instance, on April 20, 1965, the Utility Average topped out at a value of 163.32. By December 31, 1970, the Average had sunk to 95.86, a loss of 41%. Again, on March 2, 1973, the Utility Average topped out at a value of 120.72. By September 13, 1974, the Utility Average had crumbled to 57.93, a loss of 52% of their entire value.

In other words, despite what you hear, the utility stocks can fluctuate broadly. You can make a pile buying utilities at the beginning of a bull market, and you can lose your shirt holding utilities through a primary bear market.

In view of all this, I want to direct subscribers' attentions to the current pattern of the D-J Utility Average. The pattern is that of a head-and-shoulders top. On March 21, the Utility Average broke below 216, and in so doing, it violated the "neckline" or support line, which is clearly defined on the chart.

This break turns the Utility Average bearish, and at this point, I feel that we have to respect the bellwether properties of the Utilities. The cracking Utility Average, as I see it, constitutes another victory for the bear. When the Utilities go down, it does not bode well for the rest of the market.



INTERNATIONAL: It ain't like the ol' days, when you could simply call your broker and ask, "What's the market doing?" and he'd give you the latest hourly quote on the Dow, and if the Dow was down 6 points you could almost bank on it -- the market would at least close down for the day. Today, if your broker tells you the Dow is down 6 points -- well, the Dow could be down 16 points by noon and be up 20 points by the close.

But that's just the beginning of the story in today's global markets. Today, I want to know what the world markets are doing, what world interest rates are doing, and what global currencies are doing. It's a different world today, it's an international world.

I read and study a mound of papers and reports each day, but there are two places which are readily available that provide valuable information on the international markets. The first is simply the daily rundown on the foreign markets in the "World Markets" section of the *Wall Street Journal*. This is the listing that I check each day, and you can see, as of last week, seven of the nine listed markets were down for the year so far. Furthermore, the World Index is down 13.3% for 1990. This suggests to me that there's a global bear market moving into place.

The second area I check is under the "International Government Bonds" box, also in the *WSJ*. Here we see the daily changes and the prices and yields in four key nations, Japan and Germany being the most important.

Inflationary pressures are hitting the major nations of the world, and these pressures are reflected in their money rates. Just check the fat yields on these bonds.

INTERNATIONAL GOVERNMENT BONDS
Prices in local currencies, provided by Salomon Brothers Inc.

	COUPON	MATURITY (Mo./yr.)	PRICE	CHANGE	YIELD*	COUPON	MATURITY (Mo./yr.)	PRICE	CHANGE	YIELD*
JAPAN (3 p.m. Tokyo)						WEST GERMANY (5 p.m. London)				
#89	5.10%	6/96	89.811	+ 0.454	7.16%	6.13%	7/97	85.750	+ 0.050	8.84%
#71	6.80	1/95	99.141	+ 0.212	7.02	5.50	5/91	96.400	+ 0.100	8.93
#11	5.00	9/09	81.776	+ 0.394	6.68	6.00	10/92	93.400	+ 0.120	8.97
#119	4.80	6/99	86.768	+ 0.762	6.75	7.00	9/94	92.950	+ 0.100	8.96
#42	8.00	11/91	100.944	+ 0.050	7.39	7.13	12/99	90.900	+ 0.150	8.53
UNITED KINGDOM (5 p.m. London)						CANADA (3 p.m. EDT)				
	10.00%	4/93	91.750	+ 0.094	13.38%	10.00%	6/08	93.700	- 0.800	10.79%
	9.50	4/05	84.094	+ 0.437	11.77	10.25	3/14	94.750	- 1.100	10.87
	9.00	10/08	81.406	+ 0.437	11.43	10.75	5/93	97.050	- 0.700	11.93
	10.50	5/99	89.344	+ 0.469	12.48	10.50	6/95	95.900	- 1.100	11.57
	8.00	12/91	90.875	+ 0.031	14.21	10.50	7/00	96.375	- 1.375	11.10

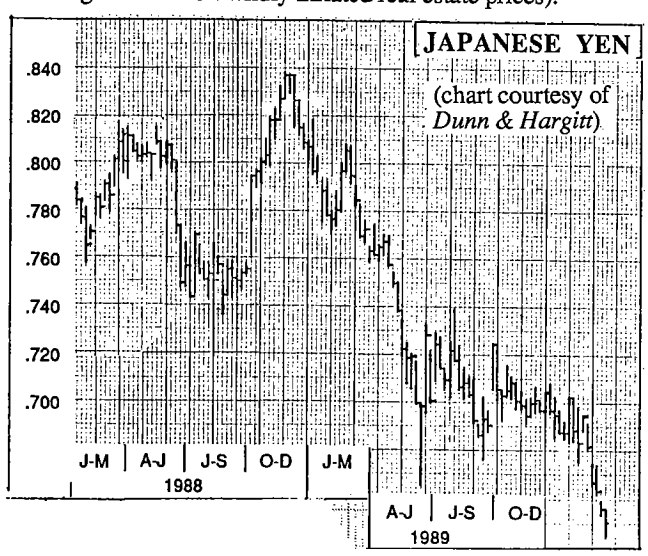
*Equivalent to semi-annual compounded yields to maturity

Total Rates of Return on International Bonds
In percent, based on Salomon Brothers' world government benchmark bond indexes

	LOCAL CURRENCY TERMS					U.S. DOLLAR TERMS				
	1 DAY	1 MO	3 MOS	12 MOS	SINCE 12/31	1 DAY	1 MO	3 MOS	12 MOS	SINCE 12/31
Japan	+0.44	- 1.30	- 5.82	- 5.13	- 5.82	+ 1.98	- 5.98	- 13.32	- 19.22	- 13.32
Britain	+0.37	- 2.37	- 6.49	- 2.30	- 6.49	+ 1.45	- 4.38	- 4.57	- 4.76	- 4.57
West Germany	+0.13	+ 1.21	- 2.79	+ 0.19	- 2.79	+ 1.19	+ 1.81	- 3.13	+ 12.02	- 3.13
France	+0.44	+ 2.54	- 0.76	+ 4.73	- 0.76	+ 1.07	+ 3.36	+ 0.55	+ 17.09	+ 0.55
Canada	- 1.00	- 1.82	- 7.49	+ 4.41	- 7.49	- 0.67	- 0.20	- 8.54	+ 6.43	- 8.54
Netherlands	+0.06	+ 1.28	- 1.55	+ 0.29	- 1.55	+ 0.77	+ 1.65	- 1.50	+ 12.05	- 1.50
Non-U.S.	NA	NA	NA	NA	NA	+ 0.97	- 0.62	- 5.09	+ 3.94	- 5.09
World*	- 0.03	+ 0.06	- 3.42	+ 0.47	- 3.42	+ 0.73	- 0.39	- 4.22	+ 3.53	- 4.22

Finally check the total return (interest plus appreciation or depreciation) on the bonds of various nations. In every case, if you had bought the bonds of these countries you would have lost money. If you had purchased Japanese bonds with dollars, you would be down 14%.

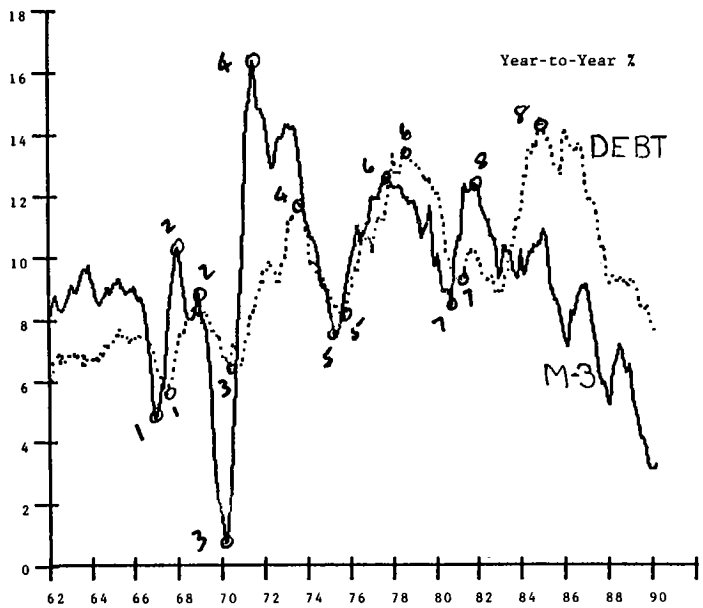
As this is written, the yen is still weak, despite Japanese central bank efforts to support the yen. The fact is that Japan has been running a printing press economy for years (over the last year the Japanese money supply expanded at a banana republic annual rate of 11.8%). The fact is that Japan should raise their bank rate another 1% to strengthen the yen, but they are afraid of what this would do to their already shaky stock market (to say nothing of what it might do to their wildly inflated real estate prices).



Meanwhile, the word is that the US would reduce its rates, IF, in return, the Japanese would ease up on their restrictive policies towards US corporations entering the Japanese market. The other rumor is that the US Treasury, worried about business and sharply declining tax receipts, is actively pressuring the Fed to reduce interest rates. My guess is the Fed believes that any reduction in rates would trigger a rise in US inflation, something Mr. Greenspan has been worrying about for quite some time. So far, there's been no resolution -- it's a Japanese/American stand-off.

DEBT AND MONEY: When it comes to charting the story of the economy, no one compares to Ed Hyman of *C.J Lawrence*. Here's a particularly important chart from Ed's latest collection. The US boom of the '80s was created with credit (which is another name for debt creation). You need an expanding money supply to create debt and credit, or as Ed puts it, "Money leads debt growth." But in this chart, Ed Hyman notes that "although debt growth has slowed, it is still growing much faster than M-3" (M-3 is a broad gauge of the money supply).

If the money supply continues to contract, it will produce a recession -- guaranteed. The chart shows the story.



FAX: As the months go by, I get an increasing number of requests to receive these Letters by FAX. And I've sympathized with the callers. The Post Office, as you know, now considers three days a reasonable period for the delivery of first-class mail. To add insult to injury, the PO has announced that it is increasing the price of a first-class stamp to 30¢ (when I started this business a three cents stamp sufficed).

Two weeks ago, I purchased an NEC FAX machine which has the capability of sending out hundreds of FAX letters automatically. Therefore, I am now offering Dow Theory Letters by FAX. The price for this service will be $150 above the regular subscription price. So if you want your Letters delivered literally within hours of publication, simply drop us a note. By return mail we'll tell you how many months left on your subscription, and we'll also tell you what it will cost to FAX the remainder of your subscription. Thank you.

NOTES & QUOTES: Some fundamentals: The profit squeeze is probably the biggest recession threat confronting the US economy. For a year now, labor costs have been rising at roughly a 5% rate, but because of foreign competition it's been difficult to raise prices. Second biggest threat is the rise in interest expenses. Recently, interest expenses have been growing 15% to 20% annually. Interest expenses are now 60% of pre-tax profits and 30% of cash flow. As a comparison, corporate interest payments amounted to $62.4 billion in the fourth quarter of 1982. By the fourth quarter of 1989, they had rocketed to $150 billion. On an annualized basis, that's almost half a trillion dollars.

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The West waxed poetic over South Africa's release of Nelson Mandela after 27 years in prison. Few seem to realize that Mandela is a life-long Marxist, and one of his first statements upon being released from jail was to call for nationalization of the gold mines. South Africa under de Klerk finally has a bold leader who is trying to rid the nation of apartheid. But Mandela's call for nationalization and his backing of the communist African National Congress is depressing (most of the ANC executive committee are open members of the S. African Communist Party).

* *

The figures on the S&L bailout look worse and worse, the latest being that the total cost before the decade is out will be above $200 billion. That's more than the US will spend on such social problems as preschool education, drug control and aid to the homeless. It's more than will be spent on highways, air traffic control and pollution abatement, and it's more than $1,300 for every US taxpayer.

* *

Here's a surprise. Some of the world's central banks are leasing their gold to Wall Street investment and commercial banks in totally unregulated transactions totaling in billions of dollars. This process allows the central banks to earn interest on their gold reserves, and at the same time, it enables Wall Street traders cheap financing on their commodity and security operations. The practice came to light during the Drexel bankruptcy. It turned out that Drexel owes a Japanese trading company, Banco de Portugal, and several European banks, about $50 million in gold that it may not be able to pay back. Said Barry Dichter, a bankruptcy specialist, "Drexel took the $500 million proceeds from the gold sale to finance its junk bond portfolio. It turned gold into junk. We will consider carefully what remedies we must pursue to get our gold back." Said Dr. Henry Kaufman, this practice of leasing gold is "another example of how Wall Street has leveraged itself without any supervision at all."

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The Times Are A'Changin' -- The typical American family used to be a man and a wife plus two children, man working, wife tending kids. This profile now fits 6% of American families . . . According to *American Demographics* magazine, in the last decade the Hispanic population in the US has risen 44%, Asians 65%, blacks 16% and whites 8%.

* *

Ed Hyman notes that according to statistics going back to 1885, the first quarter of 1990 was the warmest quarter on record. This has helped store sales and construction, and probably hurt heating oil demand.

* *

Was the Noriega caper worth it? Experts are beginning to question it. First, convicting Noriega will be very difficult, and questions of Constitutional law will most definitely arise. Second, at minimum the guess is that it will cost the US around $2 billion to keep Panama afloat. It is thought that Noriega was just a conduit in the dope traffic, and that narcotics will continue to flow through Panama much as before. Ah well, the incursion showed the world that President Bush is no wimp.

* *

Speaking of Mr. Bush, it is increasingly felt that he is a "care-taker" President. He's been watching earth-shattering events in Europe and Asia but in general standing aside and basking in his popularity. So far, every crisis seems to have washed over Mr. Bush. Can that continue? Can the Bush popularity last? The Dems certainly haven't come up with anything that could challenge his leadership. The US political system, as it stands today, is a system that does not lead -- it **responds** to crisis. So far all the crises (i.e., narcotics, deficits, poverty, AIDS, crime, etc.) have been somewhat muted in a warm bath of national "good feelings," feelings fueled by the collapse of the Soviets and the absence of a US recession. Can it last? Time will tell.

* *

Japanese stockholders are being told to "sit tight," that "stocks always come back." That probably accounts for the low volume on

the vicious decline from the record 1989 high of 38,915.87 high. In my experience, however, low volume declines from a major peak are bearish -- such action simply means that no one is getting out. So far the Nikkei index of 250 high-grade stocks is down around 23%. The losses are mounting however, and here are some of the individual percentages: Hitachi down 12.1%, Honda down 18.4%, Sony down 20.2%, Fuji Photo down 24.1%, Matsushita down 25.3%, Toyota down 25.5%, Canon down 28.9%, Mitsui down 40.6%. Probably worst is giant Nippon Telephone which has now fallen below its issuing price (an event which has made many Japanese holders furious since it is claimed that the government priced the issue too high).

* *

People are wondering where the Japanese markets are headed and why? The fact is that Japan's stocks were floated to the sky amid excessive liquidity and huge leverage. Consider this -- the primary Japanese money supply was up 11.8% over the last year, although recently Japan has moved to slow things down. Stock prices aside, there no question about Japan's competitiveness. Since 1985, Japan has increased spending on factories, equipment and research 150%. Over the same period US spending has increased only 23%. To put it mildly, the Japanese are plowing back vast amounts of money for future competitiveness. Said *Fortune* magazine: In the past only a few high-tech industries in Japan , including chemicals and electronics, spent as much as 10% on sales of new products and facilities. Now it's *zen'in sanka* -- everyone is doing it."

* *

The *WSJ* (March 23) notes (as have I) that absurdly high land prices in Japan have been instrumental in taking Tokyo stocks to the moon (I guess you could call Nikkei 38,900 the moon). They note that at $15 trillion (not billion but trillion), the 1988 market value of Japanese land was five times that in the US. Last year, prices of prime property in Japan's major cities rose an average of 28.7%, while those in the ancient capital of Kykoto rose an unbelievable 68% and Osaka's land values rose 59%. Since 1986, Tokyo property values have doubled. Japan's major banks have raised their real estate loans to over $300 billion. Corporations in Japan have borrowed against their stratospheric land values, and have put the money into the Japanese stock market. So the question everyone is asking is -- will Japanese land values hold up? Russell comment: Ultimately, I think they have to collapse. "Values will out", and there are no values in Japanese land. Final note: 15% of the Tokyo stock market's annual volume is accounted for by companies trading in each other's stocks to juice up their profit statements. Many companies have earned more from this trading than they did running their own businesses.

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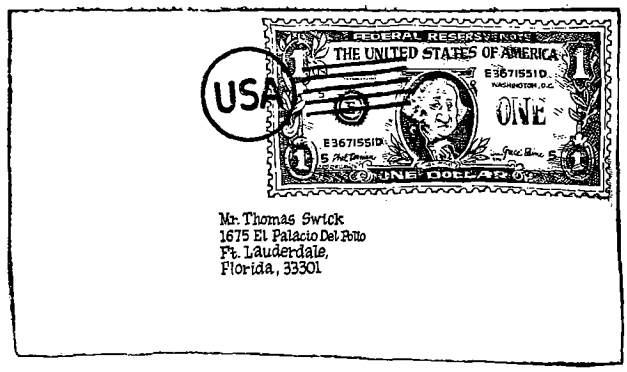
Charles Allmon, Editor of *Growth Stock Guide* and founder of Growth Guide mutual fund, has this to say about the present situation: "With much of Europe in turmoil and the US holding the prize as our planet's biggest debtor, much could happen in this decade. In fact, the 1990s may well be one of the two or three most exciting decades of the 20th century." Allmon also lists the two things our citizens never want to see: (1) the manufacturing of hot dogs, and (2) how laws are made in Washington. To these, Russell adds number (3): the US Post Office's planning committee in action.

* *

Stones: Last week De Beers (which controls 80% of the world's diamonds) raised the price of uncut diamonds 5.5%, this after a price boost of 15.5% last year. The price of uncut or "rough" diamonds has never declined since De Beers starting keeping records in 1964, although the finished or polished diamonds have fluctuated broadly. The wholesale price of a D (almost colorless) flawless one carat stone is now around $18,000, and prices go up geometrically with size. Meanwhile, the price of rubies (the most expensive of all precious stones) has gone through the roof with good Burmese stones selling for up to $60,000 a carat.

* *

The new boost to 30 cents for a first class letter is arousing protests around the nation. The Post Office continues to run huge deficits, and the ridiculous fact is that 83% of the PO's expenses are salaries and pensions. The powerful 800,000 member PO union refuses to allow for mass mechanization and computerization of the mails, and the politicians (in the face of that kind of vote) sit on their hands. In my opinion, the PO is heading for disaster. Reason: FAX and other delivery systems will slowly strangle the PO. Here's a view of things to come from the *Providence Journal-Bulletin.*



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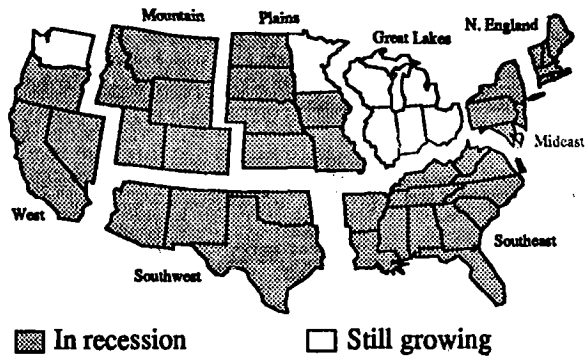
The *Sindlinger & Co.* reports (based on polls to households all over the nation) claims that 80% of the states are now in recession. I don't know whether Sindlinger is correct, but here is his chart (courtesy of *Investor's Daily*).



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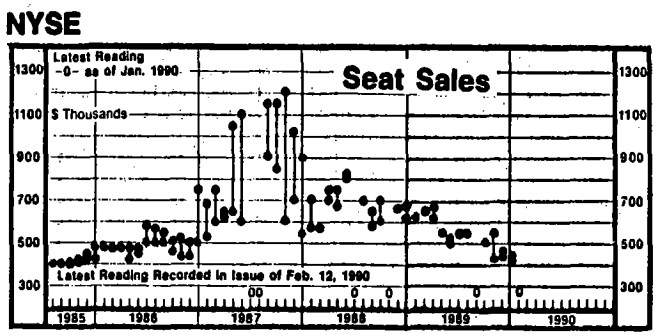
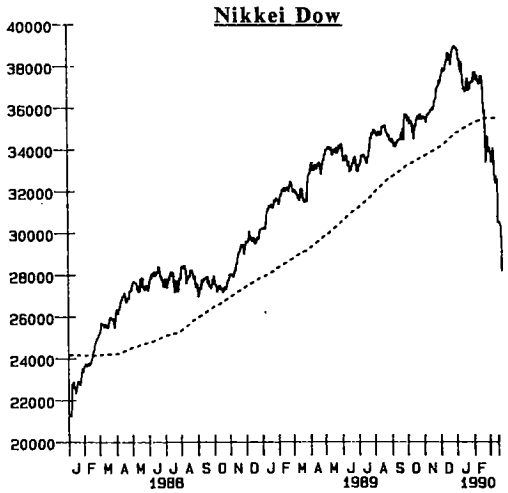
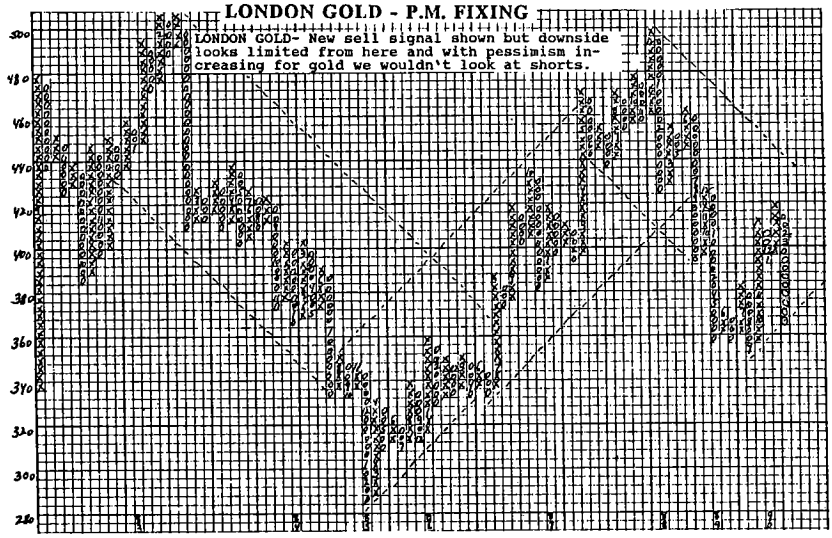
Program trading driving you up the wall? Brace yourself -- Nomura Securities, the world's largest securities firm, is readying itself to jump into program trading on an international scale. Joseph Schmuckler, in charge of program trading at Kidder Peabody has resigned to take over the Nomura activities.

* *

Wall Street and the financial industry is in the worst depression since the 1930s with over 40,000 employees of the Street and its various firms having lost their jobs up to this point. The massive loss of high-priced jobs has hurt NYC real estate prices, and in Gotham it's now a buyer's market. Some of the Street's problems can be measured by the price of a "seat" or membership on the NYSE. This chart (courtesy of *M/G Financial*) tells the story. From a 1987 high (before the crash) of $1.15 million, the price of a seat has dropped to $350,000. In fact, Drexel Burnham Lambert (under Chapter 11 bankruptcy) recently sold six of its seven seats, probably at around a price of $350,000 or less.






LONDON GOLD - P.M. FIXING
LONDON GOLD- New sell signal shown but downside looks limited from here and with pessimism increasing for gold we wouldn't look at shorts.

Just in case you're a recent subscribers and don't know what a market crash look like, glance above. One of Charles Dow's famous quotes was, "To know values is to know the meaning of the movements of the market." Had the Japanese read a bit of Dow, the Nikkei never would have risen to 38,900. So now Japanese stocks are returning to value -- and when they do that in a hurry it's called a crash.

* *

The lying and profligacy of the Administration and Congress are receiving more publicity these days. In the April 2 *NY Times*, there's a letter from Senator Proxmire stating that the federal debt has been rising at a rate of $200 to $300 billion a year over the last decade. He notes that we are destroying America's future. I couldn't agree more, but NOTHING IS BEING DONE ABOUT IT (and I have five kids whose future I worry about).

GOLD: Wow! Wot a week. I guess everyone has heard that the Saudis dumped 3.5 million ounces of gold last week and then for some unaccountable reason bought British pounds. The gold market fainted under the pressure of this sudden barrage.

One thing is clear. Everybody has now turned bearish on gold. I've had dozens of calls from subscribers, friends, advisors, technicians, and the consensus is that gold "has broken down," it has "fallen below its long-term moving averages," "it's headed lower." My answer -- maybe, we'll see.

Fundamentals: There's a world liquidity squeeze in progress. The whole world is clamoring for "more money" -- money for Eastern Europe, money for arms, money for Africa, money for pollution, money for South America. But in the face of rising inflation, the central banks in most of the nations have been tightening. Thus, we're seeing a run-off in liquidity, which I believe is the real reason for gold's decline. But the liquidity run-off is going to produce one of the following: (1) a liquidity crisis; (2) another stock market crash; or (3) a world recession. When one of these happens, the central banks will open the money spigots wide, and gold will head higher.

But on to the actual market. I think this point & figure chart tells the story best. The recent sell-off took gold down to a second London fix (this chart is based on the London second fix) of 368 on March 27. This put gold exactly on the rising trendline which comes off the extreme low. What happens next? We'll have to wait and see.

Meanwhile, the US continues to run massive deficits and the federal debt moves relentlessly higher. Government debt ultimately translates itself into inflated (depreciated) dollars. If you don't believe it, simply study these statistics. For instance, note the 1974 dollar is now worth 50¢. And I don't see the trend changing. Furthermore, the interest cost on the federal debt is now compounding in such huge amounts that it makes the budget increasingly difficult to balance in constant dollars (i.e., the cost of interest on the debt in the current fiscal year will rise roughly $20 billion or $1.6 million a month). On top of this, the US faces massive new expenses for items such as the S&L bailout and the projected clean-air program (the *WSJ* estimates the clean air program will cost over $21 billion).

Consumers Price Index	Purchasing power in 1945 dollars
1945 77.8	128.3
1950 58.2	171.6
1955 52.3	190.9
1960 47.3	211.1
1965 44.4	225.0
1970 36.1	276.9
1971 34.6	288.8
1972 33.5	298.3
1973 31.6	316.9
1974 28.4	351.6
1975 26.1	383.8
1976 24.7	405.9
1977 23.1	432.1
1978 21.5	465.2
1979 19.3	517.6
1980 17.8	561.7
1981 15.9	625.9
1982 14.8	675.7
1983 14.3	699.3

Decade after decade gold has held its purchasing power. It will continue to perform that function. Gold will fluctuate; it will even fluctuate wildly based on political machinations, crowd psychology, and the economy of the times.

But never forget why you bought gold in the first place. I have stressed repeatedly that we are accumulating gold regardless of price for insurance purposes or "just in case." We didn't buy gold as a speculation, and that is exactly why I advised buying gold the conservative way -- on a fixed-dollar amount once a month.

LATE NOTES: Signs of the global bear are visible -- but some signs are subtle while others are flagrant. Subtle: the broad **Value Line** Geometric average of 1685 NYSE, AMEX and OTC stocks closed at 243.87 last Friday (March 30). Exactly one year ago this average was 245.77. So the Value Line is actually lower now than it was a year ago.

Flagrant: Nikko Securities estimates that at the beginning of 1990 the total value of the **Tokyo market's** was $4.2 trillion. As of late last week, the Tokyo market's value had dropped to $2.9 trillion. This represents a total loss in value of 30.9%. Then on April 1, the Nikkei crashed again, losing 6.6% of its value on that single session (so add 6.6% to the 30.9% loss figure!). That's bear market action, and it's not subtle at all.

Of the nine major stock markets listed daily in the *WSJ* (under the "World Markets" section), seven are down for this year, the only gainers being Germany and Hong Kong. In the losing column are the US, Britain, Canada, Japan, France, Switzerland and Austria.

NEXT MAILING: April 18